

June 21, 2004

**MEMORANDUM**

TO: Finance and Administrative Officers, and Chief Accountants  
All State Agencies

FROM: Ruth Mealy, Director  
Payroll and Tax Reporting Division  
Office of Financial Management

**SUBJECT: Backup Withholding on Vendor Payments**

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Attached is an updated list of the vendors/payees that the State must impose backup withholding on at a rate of 28% on 1099 reportable payments. The Internal Revenue Service requires backup withholding because the vendors/payees have not responded to "B notices" mailed to them.

We will discontinue backup withholding if the vendor/payee certifies its correct name/Taxpayer Identification Number (TIN) as instructed in the "B notice". We are precluded by IRS regulations from refunding amounts withheld prior to certifying the name/TIN. However, the vendor/payee can take credit for the withholding when they file their tax return.

Agencies may receive questions from vendors/payees regarding backup withholding. To assist you in answering questions from vendors, we have attached sample "B notices" (first and second) and a list of common questions and answers regarding backup withholding.

To keep agencies informed, OFM will periodically issue updated lists of vendors/payees subject to backup withholding. Agencies can also identify vendors subject to backup withholding by checking the backup withholding indicator on the ADPICS 5200 screen (Vendor Table Maintenance).

If you have any questions regarding this memo, please contact Ed Dettling, Manager, Tax Reporting Section, Payroll and Tax Reporting Division, Office of Financial Management, telephone (517) 335-7269.

Attachments

cc: M. Moody  
J. Paxton